

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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Plunging Oil Demand . . .

The Organization of Petroleum Exporting Countries (OPEC), the cartel which has dominated the world oil market since 1973, appears to have become the victim of its own success. Through its control over the bulk of the free world's oil reserves and production capacity OPEC has, until recently, been able to boost the world price of oil to whatever levels it desired. The huge increases in the price of oil since 1973 have been the major cause for the slowing in the pace of world economic activity which, combined with growing energy conservation efforts, subsequently caused a sharp decline in the demand for petroleum.

In the United States alone, for example, consumption has declined from an average of 20.6 million barrels per day (mbd) in 1979 to 16.1 mbd at present. This represents a fall of almost 22 per cent in the face of only a flattening in real growth. Reflecting the impact of plunging demand, free world oil production fell from 48.6 mbd in 1979 to 40.2 mbd in October, 1981, a reduction of 17.3 per cent. In particular, OPEC production has fallen 31.4 per cent in the same period. As a consequence, OPEC output has fallen from 64 per cent of total free world production to less than 50 per cent today.

Non-OPEC oil producers have greatly increased their shares of the world market. Mexico, Great Britain, Norway, Egypt and Angola (and, in the United States, Alaska) have recently become major oil producers, competing fiercely, and with fewer "restrictions" than OPEC. Mexico in particular, has become the world's fourth largest oil producer with output close to 2.5 mbd. The Soviet Union, the world's largest oil producer, has been increasing oil exports in order to boost its foreign exchange earnings. China, too, is seeking to elevate its production and exports. Further, the current excess supply of oil has occurred at a time when two major sources of oil, Iran and Iraq, are exporting very little. As recently as 1977, the combined output of these two countries was close to eight mbd. If and as these countries settle their differences and increase production, oil supplies will swell further. Indicative of the current oil glut is the fact that OPEC's current

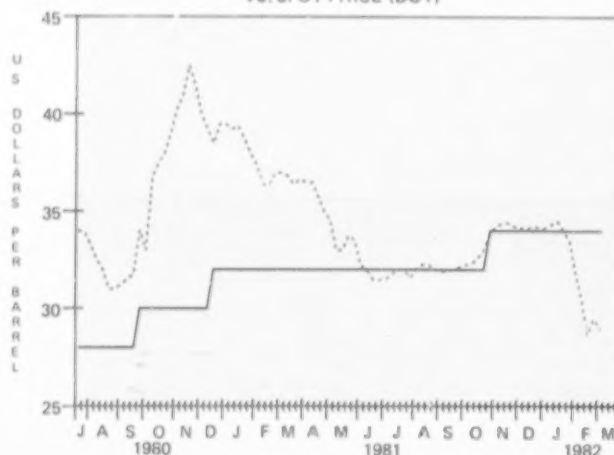
production is only 59 per cent of their sustainable production capacity. In 1979, it was 90 per cent.

. . . And Falling Prices

Oil prices have begun to reflect the combination of weakening demand and overproduction of petroleum. There has been a persistent pattern of both official and unofficial price cuts since the beginning of the year. Iran, Great Britain, Mexico and Venezuela have recently cut prices for their crude oil exports and further price cuts are expected. Although the official base price for OPEC oil remains at \$34 per barrel, price cutting, bartering, discounts and rebates by OPEC and non-OPEC producers alike seem to be the order of the day. An indication of this may be seen in the movement of spot prices.

The average spot price for the OPEC "marker" crude oil (Saudi Arabian Light) during the week of February 26, 1982 was \$29.50, down 13.6 per cent

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE)
VS. SPOT PRICE (DOT)



from the spot price on January 1, 1982, although in the same period the average official OPEC price remained unchanged. Spot prices, however, represent the marginal value of oil, that is, the price at which excess production is cleared from the market. They are the precursors of trends in the official price.



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The decline in the volume of oil exports as well as the fall in the price which the OPEC oil countries are experiencing is creating a new problem for the oil producers. In an effort to keep revenues at the levels upon which their current needs and development plans are predicated, OPEC has not cut production as fast as demand has dropped, resulting in a sharp drop in prices and, consequently, revenues.

A Quandary For OPEC

The oil exporting nations, particularly those belonging to OPEC, have been unable so far to develop a concerted response to the decline in their revenues. There are two schools of thought among OPEC members as to what remedial action should be

taken. Most OPEC members, particularly those with large populations, favor a sharp cut in production, while maintaining the official base price (from which other crude oils of varying qualities are priced) at \$34 per barrel. The other view is that the price of oil should be allowed to fall, encouraging consumption and at the same time contributing to a reduction in world inflation rates.

It is easy to see the reasons underlying each school of thought. Those who favor reducing output want Saudi Arabia, which produces over one-third of total OPEC production, to do most, if not all, of the cutting—as much as two to three mbd. Current Saudi Arabian production is estimated to be under

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/3/82	S Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	135.184	- 1.370	+ 8.790
Loans to Depository Inst.	1.566	- .334	+ .267
Float	3.146	- .914	+ .384
Total Reserve Bank Credit	149.267	- 2.124	+ 8.885
Treasury Deposits with			
Federal Reserve Banks	3.928	- 2.765	+ 1.246
Currency Outside Banks	124.949	- .946	+ 6.011
Member Bank Reserves:			
Required	40.562	- .096	+ 1.083
Excess (Deficiency)	.547	+ .492	- .128
Total Reserves Held	41.109	+ .396	+ .955
Net Borrowed Reserves	.872	- .827	+ .424
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.610	+ .200	- 2.468
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1	448.3	+ 9.3‡	+ 6.3‡
M2 (February '82)	1,846.0	+ 8.0	+ 10.0
M3 (February '82)	2,213.6	+ 7.2	+ 10.6
L (November '81)	2,625.3	+ 10.3	+ 11.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 3/12/82			
‡ U.S. Treasury Bills	12.55%	12.70%	12.45%
* Federal Agencies	13.26	13.84	13.84
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.54	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.50	14.60	14.55
‡ Finance Company Paper—Prime		‡ Bankers' Acceptances	
5- 14 days	13.25%	Apr.	13.80%
15- 29 days	13.25	May	13.70
30- 59 days	13.75	Jun.	13.60
60- 89 days	12.50	Jul.	13.60
90-179 days	12.50	Aug.	13.50
180-239 days	12.50	Sep.	13.30
240-270 days	12.50		
‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	13.75%	Effective Rate	14.65%
90-120 days	13.63		
‡ Discount basis.		* Subject to availability.	† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81 \$ 2,995	\$ 2,965	\$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81 \$ 1,498	\$ 1,516	\$ 1,486
Percent Change, Annual Rate	4th Q'81 — 4.7	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan '82 — 3.6%	4.8%	9.6%
Change in Producer Prices*	Feb '82n — 1.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons) †	Feb '82 99,590	99,581	100,069
Unemployment as % of Civilian Labor Force †	Feb '82 8.8%	8.5%	7.4%
Personal Income*	Jan '82 \$ 2,495	\$ 2,491	\$ 2,301
Leading Indicators Composite Index (1967=100) †	Jan '82 127.0	127.8	135.2
Industrial Production Index (1967=100) †	Jan '82 139.1	143.4	151.4
Net Change in Consumer Installment Credit †	Jan '82n \$ 0.44	—\$ 0.03	\$ 0.87
U.S. Merchandise Trade Balance †	Jan '82 —\$ 4.09	—\$ 0.86	—\$ 3.71
Plant and Equipment Expenditures*	1st Q'82 \$345.46(a)	\$332.69(a)	\$312.24
Private Housing Starts (Thousands of Units)*	Jan '82 894	899	1,585
New Construction Expenditures*	Jan '82 \$ 231.0	\$ 234.4	\$ 259.0
Total Business Inventories†	Jan '82n \$ 509.7	\$ 511.8	\$ 478.5
Total Business Sales†	Jan '82n \$ 336.9	\$ 342.3	\$ 352.5

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n—Newly reported figure.

a—Anticipated.

seven mbd, down from a recent level of 8.5 mbd. If this cutback in output were sufficient to hold present price levels, the other OPEC countries would realize their export revenue goals and, once demand picked up, as it might be expected to do as the global economy recovers, they could expect to increase export sales.

On the other hand, Saudi Arabia has already absorbed substantial production cuts (Saudi Arabia's capacity exceeds ten mbd). Thus, it might be already approaching the minimum production level consistent with its national development objectives—some 6.5 mbd. This is the level of production, with oil prices down to perhaps \$28 per barrel, that

generates the minimum revenue the Saudi Arabians apparently need to sustain their development program. Further, by contributing to easing the inflationary impact of energy costs, the Saudis evidently hope to encourage a return to global growth and prosperity and, eventually increased oil consumption.

The OPEC oil producers have finally come face to face with a fundamental weakness of cartels. By raising the world price of oil in order to hasten their own economic development and raise their populations' living standards, the OPEC member states have also encouraged vigorous (and highly effective) conservation programs in consuming

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (2/24/82)	135,142	+ 4,253	+22,654
New York City (2/24/82)	33,324	+ 489	+ 6,644
Commercial Paper (2/24/82)	168,371	- 1,055	+38,242

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
	Latest Week	Change Since Week Ago	Year Ago
Weekly Reporting			
Large Commercial Banks			
Nationwide (2/24/82)	198,950	- 149	+29,034
New York City (2/24/82)	55,985	+ 250	+ 6,607
Total Loans Gross Adjusted			
	Latest Week	Change Since Week Ago	Year Ago
Nationwide (2/24/82)	472,501	+ 1,285	+48,692
New York City (2/24/82)	110,380	+ 527	+11,526

Financial Markets

U.S. Governments, Closing Yields:

	Friday 3/12/82	Change Since Week Ago	Year Ago
90-Day Bills†	13.27%	+ 1.09	- .56
180-Day Bills†	13.91	+ 1.06	+ .47
Longest Bill†	14.05	+ 1.15	+ .71
Recent Issues:			
15 ¹ /8s 2/29/84	14.34	+ 1.57	
14 ¹ /8s 12/31/85	14.13	+ .73	
14 ⁵ /8s 2/15/92	13.96	+ .61	
14s 11/15/11	13.62	+ .46	

Municipals:

Bond Buyer—20 Bond Index* (3/11/82)	12.71%	+ .53	- 1.12
Blue List Total (\$ Million)	\$1,087	+ \$283	+ \$ 317
30-Day Visible Supply (\$ Million)	\$2,046	- \$219	+ \$ 24
Total	\$3,133	+ \$ 64	+ \$ 341

Corporates:

Moody's Aa Composite (3/11/82)	15.22%	+ .01	+ 1.31
30-Day Visible Supply (\$ Million)	\$10,152	- \$ 80	+ \$6,017

Stocks:

Dow-Jones Averages:			
Industrials	797.37	- 9.99	- 188.40
Transportation	320.00	- 2.82	- 100.40
Utilities	106.01	- 1.67	- 2.90
65 Stocks	312.51	- 3.74	- 69.39
Standard and Poor's 500 Stocks	108.61	- .73	- 24.50
N.Y.S.E. Composite Index	62.52	- .62	- 13.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	61,136	- 4,724	+ 6,338

International Rates

	Friday 3/12/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.63%	14.38%
1 month	14.94	14.38
3 month	14.94	14.38
6 month	14.94	14.44
1 year	14.94	14.44

EURODOLLAR BONDS

Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.60%
Long Term (7 to 15 yrs.)	14.80	14.70

FOREIGN EXCHANGE SPOT RATES

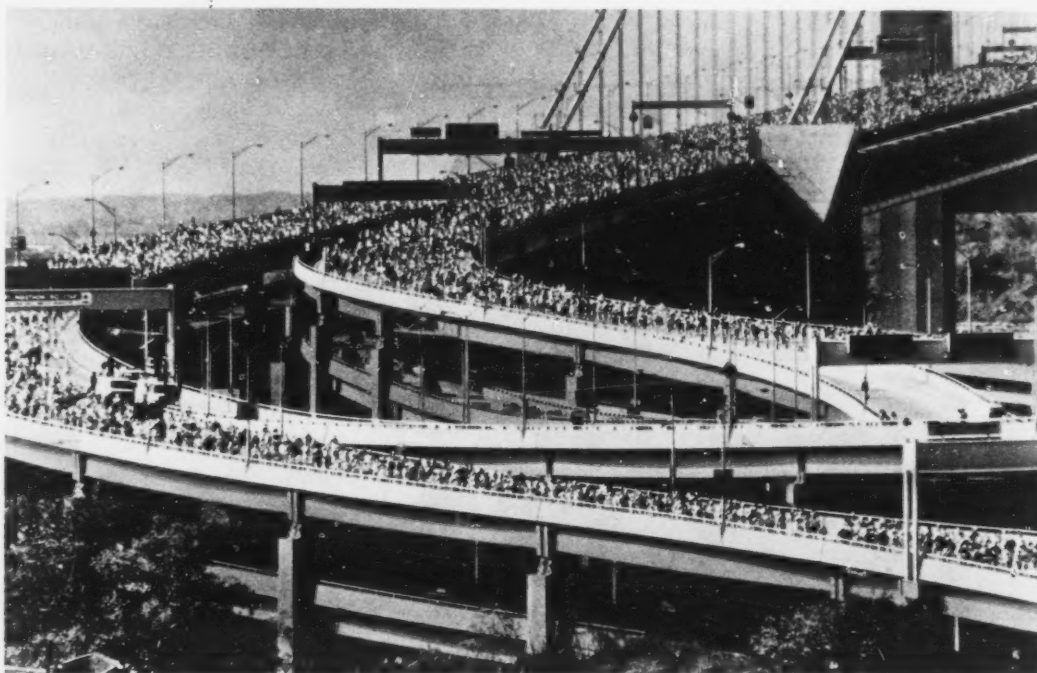
New York Opening (3/12/82)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.02273	43.99
Canada	.8242	1.2133
Denmark	.1253	7.9793
France	.1642	6.0915
Germany	.4208	2.3763
Italy	.0007787	1284.20
Japan	.004171	239.73
Mexico	.02212	45.20
Netherlands	.3842	2.6025
Switzerland	.5336	1.8740
U.K.	1.8015	.5551

* .46% Taxable equivalent 23.54%.

† Bond equivalent.

countries and conversion to other forms of energy. Their actions have also stimulated the search and development of new sources of petroleum. At the same time, by reducing the demand for oil, OPEC has lost control over a significant portion of the Free World's energy use. As other non-OPEC

producers increase production in order to maximize their income to meet the cost of economic development in the face of a shrinking market, prices will continue to drop until a supply/demand equilibrium point is reached. The price of oil at this point will reflect its "real" economic value. H



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